

**Court System**

**July 2003**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
State Capitol  
Nashville, Tennessee 37243-0260  
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John G. Morgan  
Comptroller

July 31, 2003

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and

The Honorable Frank F. Drowota, III  
Chief Justice of the Supreme Court  
Supreme Court Building  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Court System for the period July 1, 2000, through February 28, 2003.

The review of management's controls and compliance with policies, procedures, laws, and regulations resulted in certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/th  
03/032



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March 24, 2003

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Court System for the period July 1, 2000, through February 28, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Court System's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Court System is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Court System's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA,  
Director

AAH/th

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

## Court System

For the Period July 1, 2000, Through February 28, 2003

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### AUDIT SCOPE

We have audited the Court System for the period July 1, 2000, through February 28, 2003. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of appellate court clerk revenue, indigent defense payments, court reporter payments, the State Board of Law Examiners, equipment, and travel. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### AUDIT FINDINGS

#### **The Indigent Defense Daily Report System Is Ineffective in Key Areas\***

The Indigent Defense Daily Report System does not appear to reliably record, accumulate, and calculate billing information from attorneys (page 8).

ensure compliance with Rule 13, *Tennessee Court Rules*, which prescribes policies and procedures over payments to attorneys who represent indigent defendants. In addition, the controls in place do not prevent duplicate payments (page 10).

#### **Internal Control Over Indigent Defense Payments Does Not Ensure Compliance With Policies and Procedures**

The Administrative Office of the Courts does not have effective internal control to

#### **Internal Control Over Equipment Needs Improvement**

Equipment items were missing, and the location and tag numbers of items did not agree to the property listing (page 14).

\* This finding is repeated from the prior audit.

## ISSUE FOR LEGISLATIVE CONSIDERATION

### **County Funding of Certain State Judges' Offices and the Provision of Salary Supplements to Certain Employees**

Currently, county governments provide varying levels of support to state judges; some counties make no provision for the operation of the judges' offices while others provide office space, office supplies, utilities, and reimbursement of certain travel expenses. In addition, some county governments provide salary supplements to individuals employed in certain judges' offices. These salary supplements are paid through the county's payroll system, and these employees receive varying levels of county benefits. Some employees have been allowed to participate in county insurance and retirement plans, while others have not.

The presence of both state and county funding sources increases the risk that the same expense item could be submitted for reimbursement to more than one funding source, whether intentionally or as a result of errors. The officials responsible for approving payments at the state and county levels do not have a mechanism to determine what expenses have also been paid by another funding source. The General Assembly should consider requiring any county funding of the state judges' offices, except for office space provided in county-owned facilities, to be remitted to the state and then paid through the state system.

A similar situation involving a district attorney general's office and county-funded credit cards previously resulted in abuse of public funds.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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**Audit Report  
Court System  
For the Period July 1, 2000, Through February 28, 2003**

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# **Court System**

## **For the Period July 1, 2000, Through February 28, 2003**

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### **INTRODUCTION**

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#### **POST-AUDIT AUTHORITY**

This is the report on the financial and compliance audit of the Court System. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

#### **BACKGROUND**

Eighteen divisions are currently included within the Court System. The Administrative Office of the Courts (AOC) administers 17 of these divisions, and the state Board of Law Examiners administers its own expenditures.

#### **Administrative Office of the Courts**

The AOC works under the supervision and direction of the Chief Justice of the Supreme Court of Tennessee, assists the Chief Justice in the administration of the judicial branch of government, serves as secretary to the Judicial Council, and attends to other duties assigned by the Supreme Court or Chief Justice.

The AOC has the additional duty of administering the accounts of the judicial branch of government by preparing, approving, and submitting budget estimates of appropriations necessary for the maintenance and operation of the state judicial system. The administrative director also draws and approves all requisitions for payment of judicial expenditures and submits vouchers to the Department of Finance and Administration. Additionally, the administrative director has the authority, within budgetary limits, to provide minimum law libraries to trial court judges.

In the performance of these duties, the administrative director of the AOC administers the following judicial appropriation codes:

a. Appellate and Trial Courts

Salaries and benefits are provided for all appellate court judges, circuit court judges, criminal court judges, chancellors, and special judges appointed by the Chief Justice as well as for the secretaries of these judges. The salaries and benefits for law clerks and certiorari attorneys employed by the appellate judges, the travel and office expenses for authorized judges, and the cost of law libraries for all appellate and trial judges are paid from this code.

b. Supreme Court Buildings

Funds for the operation, maintenance, and security of the Supreme Court Buildings in Nashville, Knoxville, and Jackson are disbursed through this code.

c. Child Support Referees

Funds are provided for hearings in child support cases to promote the timely fulfillment of parents' obligations to support their children.

d. Guardian ad Litem

This code provides payments to attorneys providing legal representation for children involved in dependency, neglect, or abuse cases.

e. Indigent Defendants' Counsel

This code provides payments to attorneys appointed to represent juveniles and adults who cannot afford attorneys in felony proceedings. The code also pays legal costs, including attorneys' fees, incurred by indigent patients during mental health hearings.

f. Civil Legal Representation

This code provides payments to agencies to represent defendants in civil matters. Certain taxes are levied on civil litigation to maintain a Civil Legal Representation of Indigents Fund for the purpose of providing legal representation of poor persons in civil matters. Pursuant to Rule 11, *Rules of the Supreme Court*, funds are distributed to Tennessee legal aid societies.

g. Verbatim Transcripts

This code provides salaries, benefits, travel costs, and miscellaneous expenses incurred by court reporters who provide trial transcripts for persons indicted for felonies.

h. Tennessee State Law Libraries

Law libraries are maintained in Nashville, Knoxville, and Jackson. Salaries and benefits for the law librarians and their assistants and funds to purchase the necessary books and materials to maintain the libraries are disbursed from this code.

i. Judicial Conference

This code provides for travel and miscellaneous expenses incurred in connection with the annual Judicial Conference mandated by statute and the two judicial seminars for continuing legal education scheduled each year.

j. Judicial Committees

Uniform Laws and the state's annual dues to the National Conference of Commissioners on Uniform Laws. Travel expenses for members of the Judicial Selection Committee are also provided.

k. State Court Clerk Conference

This code provides for the travel and supplies expenses incurred in connection with the State Court Clerk Conference mandated by statute. At least one annual educational conference is required to be held. The membership of the conference includes all circuit court clerks, clerks and masters, elected probate clerks, criminal court clerks, juvenile court clerks, and elected general sessions court clerks in the state. Deputies of these clerks are associate members of the conference.

l. Administrative Office of the Courts

The salaries and operating expenses of the Administrative Office of the Courts are disbursed through this code. The Administrative Director is the administrative officer responsible for the day-to-day operations and the administrative details of the courts.

m. Appellate Court Clerks

The offices of the clerks are in Nashville, Knoxville, and Jackson. Each office consists of the deputy clerk and assistants. The salaries of the deputy clerks and assistants are paid from fees collected by the clerk. Salaries of certain office personnel and general operating expenses are paid from funds appropriated to the clerks.

n. Board of Professional Responsibility

This board is responsible for reviewing and investigating allegations of attorney misconduct and for imposing disciplinary action as covered by *Supreme Court Rule* nine.

o. Tennessee Lawyers Assistance Program

This program was established by *Supreme Court Rule* 33 to provide education to the bench and bar, to protect the public, and to provide assistance to members of the legal profession suffering from physical or mental disabilities that impair their ability to practice or serve.

p. Tennessee Commission on Continuing Legal Education and Specialization

This commission is charged with the general supervisory authority over the administration of *Supreme Court Rule 21* governing mandatory continuing legal education.

q. Tennessee Lawyers' Fund for Client Protection

This fund was established by *Supreme Court Rule 25* to reimburse claimants for losses caused by any dishonest conduct committed by lawyers licensed to practice in this state.

### **State Board of Law Examiners**

The State Board of Law Examiners is not administered by the Administrative Office of the Courts; it is responsible for administering its own expenditures. The State Board of Law Examiners consists of five members of the state bar who are appointed by the Supreme Court and serve staggered terms of three years. In addition, the board employs an executive secretary and necessary assistants. The executive secretary performs various administrative duties, keeps account of all fees paid to the board, records all examinations, and otherwise assists the board in the performance of its official duties. Board assistants are attorneys who are selected to write exam questions and grade examination papers.

An organization chart of the department is on the following page.

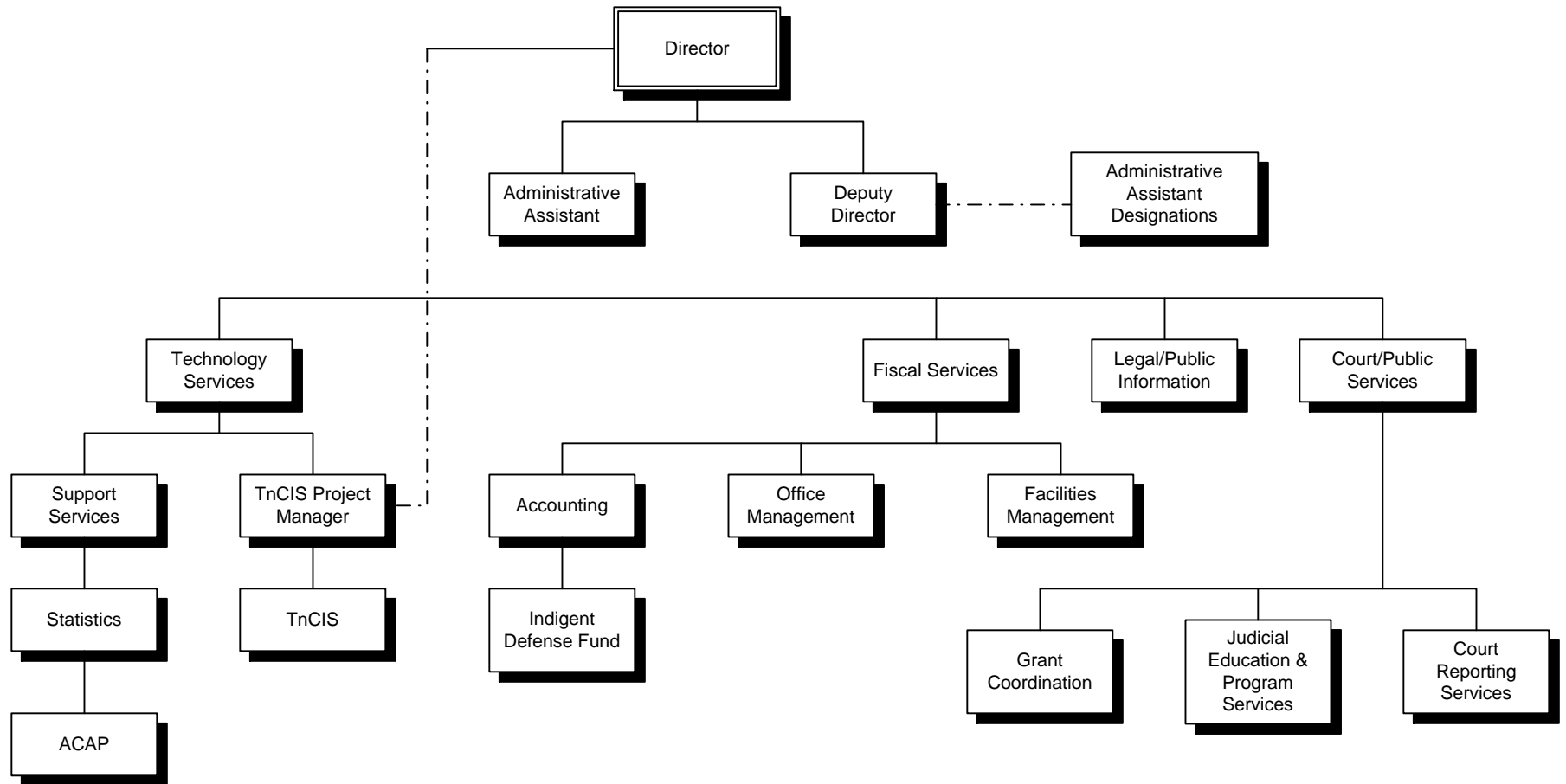
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### **AUDIT SCOPE**

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We have audited the Court System for the period July 1, 2000, through February 28, 2003. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of appellate court clerk revenue, indigent defense payments, court reporter payments, the State Board of Law Examiners, equipment, and travel. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

# Court System Organization Chart



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## **PRIOR AUDIT FINDINGS**

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Court System filed its report with the Department of Audit on August 31, 2001. A follow-up of all prior audit findings was conducted as part of the current audit.

### **RESOLVED AUDIT FINDINGS**

The current audit disclosed that the Court System has corrected previous audit findings concerning the inadequacy of the appellate court clerk's billing and cash-receipting controls, the failure of the management of the Administrative Office of the Courts to implement an effective internal control system, and the violation of the state's contracting procedures by using contracts with private court reporters that were not approved by the Comptroller of the Treasury.

### **REPEATED AUDIT FINDING**

The prior audit report also contained a finding concerning the inability of the Indigent Defense Daily Report System to reliably record, accumulate, and calculate billing information from attorneys. This finding has not been resolved and will be repeated in the applicable section of this report.

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## **OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS**

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### **APPELLATE COURT CLERK REVENUE**

Our objectives in reviewing the operation of the Nashville office of the Appellate Court Clerk were to gain an understanding of the operation and to determine whether

- procedures and controls over cash-receipting were adequate and being followed,
- revenue or fees have been billed and recorded at the correct amount,
- revenue items were deposited timely and were properly coded in the state's accounting system, and

- records were reconciled with Department of Finance and Administration reports.

We interviewed key personnel at the appellate court clerks' office to gain an understanding of the billing system used and the controls over billing and cash receipting. We reviewed a sample of receipts for the period July 1, 2000, through January 31, 2003, to determine if amounts deposited agreed with the amounts received and if receipts were deposited timely. We reviewed a sample of revenue items for the period July 1, 2000, through December 31, 2002, to determine if the items were properly billed, receipted, and deposited. We also reviewed the recording of the sample items to determine if the revenue was coded properly in the state's accounting system. Also, we reviewed the process the Court System used to reconcile its records to reports issued by the Department of Finance and Administration.

Based on our interviews, review of supporting documentation, and testwork, we found that procedures and controls over cash-receipting were adequate and were being followed. Also, based on testwork performed, we determined that revenue items collected during the audit period were deposited timely and properly coded in the state's accounting system, and that revenue and fees were billed and recorded at the correct amount. In addition, records were reconciled to reports issued by the Department of Finance and Administration.

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## **INDIGENT DEFENSE PAYMENTS**

Our objectives in reviewing and testing indigent defense payments were to determine whether

- the Daily Report System reliably accumulates and calculates billing information from attorneys;
- exception dates identified by the Indigent Defense Daily Report System were researched as necessary to detect irregular, duplicate, or excessive billings;
- the procedures used to process billings from attorneys for Indigent Defense work are adequate to prevent or detect overbillings; and
- billings included all applicable information, including appropriate rates, and the billings were reasonable.

We interviewed key personnel to gain an understanding of the AOC's controls over the payment of indigents' defense attorneys. In order to determine if the Indigent Defense Daily Report System reliably recorded, accumulated, and calculated billing information, we obtained files from the Daily Report System and performed computer-assisted audit techniques (CAATs) for the period March 12, 2001, through January 28, 2003, to search for unreasonable entries in key data fields. As unreasonable entries were identified, we performed additional procedures. Those additional procedures included identifying and correcting dates and social security numbers that were data entry errors or duplicated. We then reaccumulated the number of hours

that should have been calculated by the Daily Report System had those dates and social security numbers not been data entry errors or duplicated. Also, we selected a nonstatistical sample of future service dates that were identified to determine if there were valid reasons for paying these claims. We reviewed a nonstatistical sample of indigent defense claims for the period July 1, 2000, through November 30, 2002, and a nonstatistical sample of claims for the period July 1, 2000, through January 23, 2003, that the Indigent Defense Daily Report System identified as over-claims to determine if the AOC paid these claims in compliance with its policies and procedures, including review of billings and research of exception dates. In addition, we reviewed some of the largest hourly accumulations per day, obtained by CAATs, to determine whether the AOC had substantiated the payments as being valid. As a listing was identified of attorneys who had multiple billings for the same defendant, but with a different docket number, we reviewed the billings and compared the amounts to the statutory limitations for the case type to determine if the attorneys had been overpaid. Finally, we obtained from CAATs a listing of several individuals who appeared to have been paid twice for the same defendant, the same day, and the same docket number.

As a result of our work, we determined that the Indigent Defense Daily Report System does not appear to reliably record, accumulate, and calculate billing information from attorneys as noted in finding 1. We found that the AOC appeared to be following the existing policies and procedures as related to exception dates and required billing information. However, we found that the AOC does not have adequate procedures to detect and prevent certain overbillings, as noted in finding 2.

## **1. The Indigent Defense Daily Report System is ineffective in key areas**

### **Finding**

As noted in the prior audit, the Administrative Office of the Courts' (AOC's) Indigent Defense Daily Report System does not appear to reliably record, accumulate, and calculate billing information from attorneys. Management controls, particularly in the detection of time billed for future service dates and attorneys with multiple social security numbers, were insufficient to verify that information entered into the system was accurate or complete. In addition, correcting entries were not subject to the same processing as initial entries, so that correcting entries did not result in accurate recalculation of total billing hours. In the prior audit, management partially concurred and stated that the Daily Report System

acts as one additional step to help insure that attorneys are not billing for more time than they should. Many of the defects cited are currently detected by other processes involved in entry of payment into the STARS system or by the manual processes that are in place. When coupled with our main frame program that processes warrants for the attorneys, this off line system works very well.

Management also stated that the system was to be replaced. However, the system has not been replaced, and the defects that auditors detected created situations where the AOC did not



recognize that the amount billed for a given day exceeded reasonable amounts and should have been researched. Problems related to the lack of date edits also led to payments for services that may have been billed in advance.

The Indigent Defense Daily Report System was implemented in January 1998 to detect and report instances where attorneys overbilled the state for indigent defense cases. It is an automated component of the overall Indigent Defense payment process and operates in conjunction with additional manual and automated procedures. The daily reporting component of the payment process is specifically designed to record and calculate attorneys' hours billed per day to ensure that billings for more than 8 hours in court, 12 hours out of court, or any excess of 12 hours daily are reported, subjected to further review, and corrected if necessary.

The auditors performed analysis of data obtained from the Indigent Defense Daily Report System for the period March 12, 2001, through January 28, 2003. The analysis was designed to verify the reliability of key data fields essential to accurate processing and reporting by the system. In addition to the analysis, testwork was performed for the weaknesses noted in the analysis.

The analysis revealed the following weaknesses in the system's data:

- 136 instances were identified where an attorney billed for time on a future service date (for example, one claim was entered on January 20, 1998, but billed for service on October 13, 1998, even though service dates should precede entry dates);
- 57 instances were identified where the service date was questionable (e.g., in 1907);
- 201 attorney names were identified with two or more social security numbers (SSNs);
- 35 instances were identified where the SSN was not valid; and
- 12 instances were identified where the sum of the in-court hours and the out-of-court hours did not equal the total hours.

Many of the instances noted above were data entry errors, and the fields mentioned directly affected the accumulation of daily hours. Testwork was performed to determine the extent to which future service dates and data entry errors affected the AOC's internal control, and that testwork revealed the following problems:

- A sample of claims submitted by attorneys who billed for time on a future date revealed that for 21 of 25 claims tested (84%), the AOC did not follow up to see if the service date was incorrect or if the request for payment should have been rejected.
- A review of attorneys who have the same name but different social security numbers revealed that 14 attorneys with two identification numbers in the Indigent Defense System accumulated more than 8 hours in-court or 12 total hours in a day. These 14

attorneys had 23 exception dates that would have shown up on the Attorney Over-Claim report if both numbers had been accumulated correctly for the total hours worked. In addition to the 23 exceptions, there were 4 exception dates listed on the Attorney Over-Claim for which the hours noted on the report would have been higher if both identification numbers had been totaled. Because the correct totals did not appear on the Attorney Over-Claim report, the claims were not researched appropriately.

Based on the exceptions noted in the testing above, it appears that the system did not accurately reflect information in the key fields of SSN, DATE, and TOTAL. As a result, attorneys with questionable billings were not reviewed. To detect billing errors reliably, the system should be designed to accurately reflect these key fields.

### **Recommendation**

Management controls over the Indigent Defense Daily Report System should be improved. Data entry procedures should be modified to ensure accurate recording of submitted claim information. Management should monitor data to ensure that key fields are being accumulated properly. In addition, the system's program logic should be examined and remedied to ensure that correcting entries are subject to accurate mathematical calculations. As billings that relate to future dates are identified, the circumstances should be researched as appropriate to ensure that the attorney has actually performed the service.

### **Management's Comment**

We concur. As previously stated a new system is in process to replace the Daily Report System. The needs assessment and workflow analysis has been completed. Work is currently underway on the detailed design specifications that will allow us to complete an RFP to create the new software proposal. The development of this new system is the top priority in our information systems division.

The new program not only will replace the daily reporting system but will also integrate our mainframe payment process into one package that will upload payment request information to STARS.

## **2. Internal control over Indigent Defense Payments does not ensure compliance with policies and procedures**

### **Finding**

The Administrative Office of the Courts (AOC) does not have effective internal control to ensure compliance with Rule 13, *Tennessee Court Rules*, which prescribes policies and

procedures over payments to attorneys who represent indigent defendants. In addition, the controls in place do not prevent duplicate payments.

Finding 1 relates to the Daily Report System. That system does not permit analyses of data regarding total charges for a case or for duplicate payments for the same work. The Daily Report System only detects irregularities related to the number of hours billed for a particular day. An effective system to detect overpayments would also include automated checks to determine whether court rule limits are exceeded and would also identify duplicate billings.

Rule 13 sets limits for the hourly amount that can be charged by counsel and limits the total amount that can be charged for various types of cases. Those cases include circumstances in which an adult or a juvenile is charged with a misdemeanor and is in jeopardy of incarceration; dependent or neglected child cases; contempt of court cases where an adult or juvenile is in jeopardy of incarceration; and guardian ad litem cases for representation of children who may be the subject of a report of abuse or neglect or an investigation report.

Rule 13 overpayments occurred during the audit period for two attorneys. A review of the 25 attorneys with the most hours charged to a single defendant revealed that one attorney was paid \$1,000 over the Rule 13 limit. This overpayment was not detected by the AOC. In a separate instance, probable overpayments were eventually detected by the AOC but not until the overpayment amounts became substantial. An attorney had submitted 120 claims, and based on a review of those claims, the AOC questioned \$20,468.12.

During the audit, a review was performed of those same 120 claims, and the auditor questioned \$34,080.12. The majority of the \$13,612.00 difference was due to a decision that the AOC made to allow additional payments for different proceedings in guardian ad litem cases, which caused the total amount allowed by Rule 13 for a given guardian ad litem case to be exceeded. These additional payments were allowed by the AOC beginning in 1999, even though Rule 13 was not changed to allow this increase until 2001.

In addition, payments for duplicate billings were not detected. During a review of several billings, three separate duplicate payments were discovered. The overpayments totaled \$2,500.

### **Recommendation**

Management should enhance existing internal control procedures, whether automated or manual, to ensure compliance with Rule 13, *Tennessee Court Rules*, and to prevent payment of duplicate payments.

### **Management's Comment**

We concur in part. The Daily Report System now in place does not provide adequate analyses of data necessary to prevent all overpayments or duplicate payments of attorney fee

claims. The new system will allow greater internal control over the process. Existing internal control procedures have been enhanced to ensure the manual process will be in compliance.

We believe the AOC did have the authority to allow additional payments on behalf of the guardians ad litem program. The responsibility for the oversight and payment of guardians ad litem claims was transferred from the Department of Children's Services to the AOC in June, 1999.

Pursuant to Public Chapter 1079 of 1999, the legislature modified T.C.A. 37-1-150 transferring responsibility for payment of guardians ad litem from the Department of Children's Services to the Administrative Office of the Courts. Upon passage of this legislation the AOC received numerous unpaid claims from the Department and guardians ad litem. When the Department was contacted regarding the existence of a policy for payment of the claims the AOC was informed that the Department had no policy. Therefore some form of immediate action was necessary to compensate the attorneys until the Supreme Court could amend Rule 13. The policy enacted by the AOC to compensate guardians ad litem was consistent with payment of criminal claims in Rule 13 and was ultimately ratified by the Supreme Court with an amendment to Supreme Court Rule 13.

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## **COURT REPORTER PAYMENTS**

The Administrative Office of the Courts pays official court reporters to record court proceedings and to prepare verbatim transcripts of criminal cases pursuant to court order. If such a state employee is not available, private court reporters may be hired to record court proceedings and prepare verbatim transcripts. A verbatim transcript is the official court record or transcript of a court proceeding. Judges typically order a verbatim transcript to be prepared when an appeal is filed. The Administrative Office of the Courts bears the cost of the verbatim transcript if the appellant is declared indigent by the court, pursuant to Section 40-14-312, *Tennessee Code Annotated*.

Our objectives in reviewing payment procedures for court reporters and verbatim transcripts were to determine whether

- the internal control system used to process verbatim transcripts for payment was adequate and in place,
- payments for verbatim transcripts and per diem charges were accurate and paid in accordance with established rates,
- total payments to individual state court reporters and individual private court reporters appeared reasonable, and
- private court reporters have a contract that was approved by the Comptroller of the Treasury.

We reviewed the applicable laws and regulations, interviewed key personnel, and reviewed supporting documentation to gain an understanding of the internal control system for verbatim transcript payments. We reviewed a sample of payments to state court reporters for verbatim transcripts for the period July 1, 2000, through November 15, 2002, to determine if the payments were mathematically accurate, authorized and approved by all the required parties, and paid in accordance with established rates. We reviewed a sample of verbatim and per diem payments for the period July 1, 2000, through November 30, 2002, to private court reporters to determine if they were properly approved, mathematically accurate, and paid in accordance with established rates. We analyzed total payments to individual state court reporters and individual private court reporters to determine reasonableness based on a typical yearly workload. Also, we determined if existing private court reporters have a contract that was approved by the Comptroller of the Treasury.

Based on our interviews, review of supporting documentation, and testwork, we determined that the AOC has adequate controls over the payments for verbatim transcripts. Per diem and verbatim payments to both state court reporters and private court reporters tested were accurate, authorized and approved by all the necessary parties, and paid in accordance with established rates. We determined that total payments to state court reporters and private court reporters appeared reasonable. Also, the basic contract used for private court reporters was approved by the Comptroller of the Treasury.

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## **STATE BOARD OF LAW EXAMINERS**

Our objectives in reviewing controls and procedures at the board were to determine whether

- expenditures were for goods or services authorized and received,
- expenditures for goods or services were recorded in the correct object code and for the appropriate amount,
- payments were made in a timely manner, and
- the board was in compliance with Section 23-1-101, *Tennessee Code Annotated*, concerning appropriate compensation of board members and use of excess funds.

We interviewed key department personnel to gain an understanding of procedures and controls over State Board of Law Examiners expenditures. We tested a nonstatistical sample of expenditures for the period July 1, 2000, through November 30, 2002, for approvals and evidence of receipt. We tested the expenditures for accurate recording, timely payment, and compliance with applicable laws and regulations. We made inquiries and reviewed supporting documentation to review the board's compliance with state law.

As a result of our testwork, we determined that expenditures were recorded correctly and were for goods authorized and received. We determined that payments were made timely and were in compliance with applicable laws and regulations. Also, we determined that the board members were appropriately compensated, and excess receipts were appropriately transferred to the AOC.

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## **EQUIPMENT**

Our objectives in reviewing equipment controls and procedures at the Administrative Office of the Courts were to determine whether

- the information on the property listing was accurate, and
- property and equipment were adequately safeguarded.

We interviewed key AOC personnel to gain an understanding of procedures and controls for safeguarding and accounting for equipment. Also, we tested a nonstatistical sample of equipment items on the state's property listing as of February 20, 2003, to determine if the items agreed by description, tag number, and location with the equipment listing, and to determine whether the items were adequately safeguarded.

Based on the testwork performed, we determined that property and equipment were inadequately safeguarded in some instances and that information on the property listing was inaccurate, as noted in finding 3.

### **3. Internal control over equipment needs improvement**

#### **Finding**

The AOC needs to improve internal control over equipment. Three of 30 equipment items selected for testwork (10%) could not be located. Also, for 8 of the remaining 27 items (30%), the actual location did not agree to the location on the property listing, and one of 27 items (4%) had a property tag which did not agree to the property listing. The actual locations of the equipment items were often in completely different offices around the state.

Effective internal control is essential to account for government resources and to ensure that all equipment is properly accounted for. Awareness of unauthorized removal of equipment and efficient utilization of resources become increasingly difficult when property locations are inaccurate and equipment is not safeguarded. In addition, the proper recording of tag numbers is essential for proper identification of state assets. Management has the responsibility to institute and ensure compliance with control procedures that will allow them to account for all equipment purchased.

### **Recommendation**

The Assistant Director for Fiscal Services should periodically review the property officer's activities to ensure equipment is adequately safeguarded, property locations are properly reported, and property tags are accurately recorded.

### **Management's Comment**

We concur. Internal control procedures are being strengthened to allow more accountability in the safeguarding of the court's assets. As assets are transferred, transactions will be documented to record the proper location of the item. Obsolete items will be properly accounted for and surplus through the Department of General Services' POST system.

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### **TRAVEL**

Our objectives in reviewing controls and testing payments for travel at the Administrative Office of the Courts were to determine whether

- payments for travel by senior management were in accordance with *Judicial Travel Policies and Guidelines*, and
- the AOC is in compliance with applicable policies and procedures regarding the use of state vehicles.

We reviewed applicable laws and regulations and interviewed key AOC personnel to gain an understanding of procedures and controls over the payment of travel expenditures and the use of state vehicles. We reviewed a nonstatistical sample of travel expenditures by senior management for the period July 1, 2000, through November 30, 2002, and examined supporting documentation to determine if travel was taken in accordance with *Judicial Travel Policies and Guidelines*. Travel claims were also reviewed to ensure mileage was not claimed when a state vehicle was used.

As a result of our testwork, we determined the payments for travel by senior management were in accordance with *Judicial Travel Policies and Guidelines*, and the use of state vehicles was appropriate.

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## **ISSUE FOR LEGISLATIVE CONSIDERATION**

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### **COUNTY FUNDING OF CERTAIN STATE JUDGES' OFFICES AND THE PROVISION OF SALARY SUPPLEMENTS TO CERTAIN EMPLOYEES**

Currently, county governments provide varying levels of support to state judges; some counties make no provision for the operation of the judges' offices while others provide office space, office supplies, utilities, and reimbursement of certain travel expenses. In addition, some county governments provide salary supplements to individuals employed in certain judges' offices. These salary supplements are paid through the county's payroll system, and these employees receive varying levels of county benefits. Some employees have been allowed to participate in county insurance and retirement plans, while others have not.

The presence of both state and county funding sources increases the risk that the same expense item could be submitted for reimbursement to more than one funding source, whether intentionally or as a result of errors. The officials responsible for approving payments at the state and county levels do not have a mechanism to determine what expenses have also been paid by another funding source. The General Assembly should consider requiring any county funding of the state judges' offices, except for office space provided in county-owned facilities, to be remitted to the state and then paid through the state system.

A similar situation involving a district attorney general's office and county-funded credit cards previously resulted in abuse of public funds.

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## **OBSERVATIONS AND COMMENTS**

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### **STUDY OF FUNDS OUTSIDE THE STATE ACCOUNTING SYSTEM AVAILABLE TO THE ADMINISTRATIVE OFFICE OF THE COURTS, THE DISTRICT ATTORNEYS GENERAL, AND THE DISTRICT PUBLIC DEFENDERS**

Pursuant to Chapter 464, Public Acts of 2001, the Office of the Comptroller of the Treasury and the Office of Legislative Budget Analysis conducted a special study of the funds maintained outside of the state accounting system and made available to the District Attorneys General, as well as the District Public Defenders and the Administrative Office of the Courts. This joint report containing several findings and recommendations was released in June 2002 and made available to the members of the Senate and House Finance, Ways and Means Committees.



## TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The Court System filed its compliance reports and implementation plans on July 15, 2002, and July 2, 2001.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

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## APPENDIX

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### DIVISIONS AND ALLOTMENT CODES

302.01	Appellate and Trial Courts
302.05	Supreme Court Buildings
302.08	Child Support Referees
302.09	Guardian ad Litem
302.10	Indigent Defendants' Counsel
302.11	Civil Legal Representation
302.12	Verbatim Transcripts
302.15	Tennessee State Law Libraries
302.18	Judicial Council and Conference
302.20	Judicial Programs and Committees
302.22	State Court Clerk Conference
302.27	Administrative Office of the Courts Protection
302.30	Appellate Court Clerks
302.35	State Board of Law Examiners
302.40	Board of Professional Responsibility
302.50	Tennessee Lawyers' Assistance Program
302.60	Tennessee Commission on Continuing Legal Education and Specialization
302.65	Tennessee Lawyers' Fund for Client Protection